

COMMUNITY BANKING CONNECTIONS[®]

A SUPERVISION AND REGULATION PUBLICATION

A Message from Governor Bowman

by Governor Michelle Bowman

Third Issue 2020



Governor Michelle Bowman

The COVID-19 pandemic has caused unprecedented disruption and hardship in nearly every aspect of our lives, and it continues to weigh heavily on our nation. Since the last publication of *Community Banking Connections*, economic activity has turned around and we are seeing re-openings across

a wide range of industries. Banks, especially community banks, have been at the forefront of this recovery, taking proactive steps to weather this crisis. I have been greatly encouraged by stories community bankers have shared with me about making contact with their business and consumer loan customers, checking in to see how they are doing and what they need. The strength of this approach to customer relationships is reflected in the Small Business Administration’s (SBA) Paycheck Protection Program (PPP) loan origination data. The SBA reports that, as of July 20, 51 percent of the nearly 5 million PPP loans were originated by banks with assets of less than \$10 billion. More than 1 million of these loans were originated by the smallest banks, with assets of less than \$1 billion. These results speak to the importance and the value of relationship banking, which is so central to the mission of community and regional banks. They also demonstrate the crucial role that community banks are playing in response to the pandemic. On behalf of the Federal Reserve, I would like to thank all community bankers for your tremendous dedication and commitment in responding to this pandemic.

Turning to supervision, I would like to highlight several key points from our July 9, 2020, Ask the Fed session.¹ At that session, William (Bill) Spaniel, senior vice president of Supervision, Regulation & Credit at the Federal Reserve Bank of Philadelphia, joined me in providing an update on the Federal Reserve’s examination pause and supervisory posture for small banks during the COVID-19 pandemic.

Small Bank Conditions Going into the Pandemic and the Federal Reserve’s Examination Pause

Small banks entered the pandemic in generally sound financial condition, with the overwhelming majority having satisfactory supervisory ratings. These banks built strong capital positions and substantially improved asset quality in the years following the last crisis. Small banks also entered the pandemic with higher levels of liquidity, which have been augmented by deposit inflows associated with pandemic-related stimulus programs. Finally, in comparison to the last crisis, credit

¹ See <https://bsr.stlouisfed.org/askthefed/Home/ArchiveCall/273>.

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concentrations were generally much lower, especially construction and commercial real estate, and broadly speaking, concentration risk management practices have significantly improved.

As state governors imposed shelter-in-place orders beginning in March, the Federal Reserve implemented a pause on examination work for small banks. We viewed the exam pause as an important way to provide bankers the opportunity to direct their full attention toward adjusting operations to protect the health of their employees and customers, comply with local health restrictions, prioritize the financial needs of their customers and communities, and administer the critical financial relief programs, in particular, the SBA's PPP.

During the examination pause, the Federal Reserve shifted its efforts to monitoring and communicating with supervised institutions to assess the impact of the pandemic. Initially, monitoring efforts were focused on discussions about operational concerns and liquidity. For many bankers, operational concerns since then have significantly eased or even subsided. Core deposits are stable, and in many cases liquidity has significantly improved. Our monitoring discussions have evolved and are now focused on credit-related matters, such as loan performance, crisis-related loan modifications, provisioning, and associated earnings impacts.

Supervisory Posture for Community Banks

On June 15, 2020, the Federal Reserve announced that examination activities for small banks would resume.² The Federal Reserve's supervisory focus will be assessing management's response to the crisis and promoting the efforts of banks to build resiliency

² See www.federalreserve.gov/newsevents/pressreleases/bcreg20200615a.htm.

through their risk management and capital planning processes. We will continue to assess the safety and soundness of individual institutions while being mindful of avoiding undue burden.

The Federal Reserve has developed tailored plans for the resumption of supervisory activities for community banks.³ The examination process during this pandemic will necessarily be different, for both bankers and regulators. Examinations will focus on offsite conversations versus a traditional onsite presence.

“ The Federal Reserve recognizes the unique and challenging conditions under which the industry has been operating, and we will consider these circumstances in resuming examination work. ”

Examination work will be more fluid, and timelines may need to be adjusted in order to focus on higher-risk banks. We will also continue to coordinate with our state counterparts on exam planning and scoping.

The Federal Reserve recognizes the unique and challenging conditions under which the industry has been operating, and we will consider these circumstances in resuming examination work. We will

continue to be sensitive to banks' operational capacity, striving to prevent undue burden on any bank struggling with crisis-related operational impacts. Prior to commencing an examination, Federal Reserve examination staff will ascertain each bank's capacity to engage in the examination process. In order to conduct effective examinations, we will need to have honest discussions with bankers regarding each bank's capacity and conditions to assess the feasibility and timing of an examination.

Supervisory activities will focus on financial resiliency, continuity of operations, and forward-looking assessments. Management's response to the pandemic is a critical component. In this environment, we expect

³ See Supervision and Regulation letter 20-15, "Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions," <https://spweb.frb.gov/sites/BSRWeb/SR/Policy/Pages/SRLtrs/SR2015.aspx>.

that management will have implemented appropriate risk management practices and management information systems to monitor the pandemic's impact on the condition of their financial institutions.

As supervisory activities resume, the Federal Reserve is focusing on institutions that could be at greater risk in the current environment, particularly those that have credit concentrations in industries severely impacted by COVID-19 (e.g., hospitality, retail), that are located in virus "hotspots," that recently showed or are showing financial weaknesses, or that are not adequately addressing the risks associated with the pandemic.

Lower-risk institutions will be subject to periodic monitoring and more streamlined supervision to understand the ongoing business environment, in terms of a bank's condition, risk profile, and operational challenges.

The Fed is providing examiners with training and is increasing communication to promote a consistent supervisory approach throughout the Federal Reserve System. Recognizing the high level of uncertainty at this time, examiners will assess a bank's condition, taking into consideration that banks could not have foreseen

the current crisis. While we remain focused on building resiliency, we also remain flexible, and examiners will not criticize bank management for taking prudent steps to support their communities during this crisis. We recognize that many parts of the country may be facing different operating requirements and that other factors may impact the reopening of businesses. This requires the Federal Reserve to be mindful of these differences, the status of community businesses, and the overall capabilities of financial institutions in these unique times.

As I mentioned earlier, we discussed the Federal Reserve's supervisory posture for small banks in an Ask the Fed webinar held on July 9, 2020. This webinar is archived and available at <https://bsr.stlouisfed.org/askthefed/Home/ArchiveCall/273>. We received excellent questions during the webinar, and I remain committed to listening to your individual concerns. I always enjoy hearing your ideas on ways that the Federal Reserve can better provide assistance to bankers. I look forward to participating in future webinars and other virtual events to continue our discussion of important supervisory matters affecting community banks. Until that time, please share your feedback at outlook@phil.frb.org. ■

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View from the District

An Eighth District Perspective — St. Louis



View from the District: How Community Banks Are Responding to COVID-19

by Carl D. White II, Senior Vice President, Supervision, Credit, Community Development and Learning Innovation Division, Federal Reserve Bank of St. Louis



Carl D. White II

When I assumed the position as head of bank supervision and regulation for the Federal Reserve Bank of St. Louis at the start of this year, the national economy was strong, with steady growth and low unemployment. Across the United States, and in the Federal Reserve's Eighth

District, the banking industry was healthy — capital levels and liquidity were, for the most part, high and nonperforming assets were low. Community banks were profitable and thriving, despite low interest rates that put pressure on net interest margins. Over the past seven years, just 44 depository institutions had failed, compared with nearly 500 during the 2008–2013 period. The Deposit Insurance Fund stood at \$110 billion at year-end 2019, an all-time high; the ratio of fund reserves to insured deposits was 1.41 percent, the highest level since 1999.

What a difference a couple of months makes.

As I write this, I am working from home, like the vast majority of St. Louis Fed employees and many of you reading this article. Fortunately, the Federal Reserve was prepared for an extensive period of operating offsite, having conducted at least annual contingency exercises for the past decade or so. Of course, it's almost impossible to prepare for every possibility, and this health crisis and the resulting economic turmoil have thrown all of us some curveballs and will, no doubt, continue to do so.

Responding to the pandemic and its economic aftermath has required an “all hands on deck” approach involving

federal, state, and local governments; federal and state banking regulators; and banks themselves. While a number of their actions are novel to this crisis, many are drawn from what worked during the financial crisis of 2008–2009.

Federal Reserve Actions

To understand the challenges faced by financial institutions, businesses, and consumers as a result of the pandemic, I thought that it would be helpful to provide a summary of Federal Reserve actions. Beginning in early March, the Federal Reserve Board took a number of monetary policy and other actions to provide liquidity and ease financial strains on households, businesses, and the overall economy. These actions included:

- Lowering the target for the federal funds rate
- Lowering the discount rate and lengthening the duration of discount window loans
- Eliminating reserve requirements
- Purchasing government bonds and mortgage-backed securities
- Establishing emergency lending facilities to support households, businesses, and state and local governments

The Board rolled out all of these actions in the span of just a few weeks, and many of them were similar to the steps the Federal Reserve took during the financial crisis and subsequent Great Recession.¹ The Federal Reserve's

¹ See “Federal Reserve Announces Extensive New Measures to Support the Economy,” March 23, 2020, available at www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm.

experience with the facilities for commercial paper and money market mutual funds was pivotal in renewing these programs quickly and launching new ones to support other markets and entities.

Actions by Bank Supervisors

Since the presidential declaration of a national emergency in mid-March, the Federal Reserve — either alone or in concert with the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and state bank supervisors — has strived to relieve some of the regulatory burdens on banks while facilitating the enactment of monetary and fiscal stimulus programs. Some of these actions have been in the form of guidance or more informal communications with financial institutions; others have been the result of legislative or supervisory decisions.

As detailed in a March 22, 2020, interagency statement, banks have been urged to work with their customers who have been affected by COVID-19 and may need loan modifications.² Such loan modifications will not automatically be considered troubled debt restructurings (TDRs). On March 26, 2020, the Federal Reserve, the FDIC, the OCC, the Consumer Financial Protection Bureau, and the National Credit Union Administration issued a joint statement noting that examiners will not discourage banks from offering responsible small-dollar loans to consumers facing temporary cash flow problems, unexpected expenses, or income shortfalls.³ The agencies suggested that open-end lines of credit, closed-end installment loans, and single payment loans were all appropriate in these situations.

More generally, the Federal Reserve conducted supervisory monitoring in lieu of traditional examinations and inspections of community banks during the first few months of the pandemic. Supervisory staff assessed the risks and challenges faced by bank customers and staff and kept tabs on banks' operations and their financial

condition. Any necessary examinations were conducted offsite to minimize disruption on a bank's operations and in light of the public health concerns with the pandemic. The Federal Reserve also extended the time period to respond to supervisory findings by 90 days. With the lifting of the pause in examinations on June 15, 2020, the Federal Reserve is continuing to conduct its community bank examinations offsite.⁴

The federal banking agencies have also enhanced their communications with banks. The St. Louis Fed, for example, has increased the frequency of its Eighth District teleconference series Conversations with the St. Louis Fed to weekly since the start of the pandemic. The St. Louis Fed, in concert with Federal Reserve Board staff, has also hosted a number of national Ask the Fed and Ask the Regulators webinars on pandemic-related issues and programs, such as the Paycheck Protection Program Liquidity Facility (PPPLF) and the Main Street Lending Program (MSLP).

The CARES Act

I also wanted to provide a brief overview of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law in late March 2020. There are several provisions that community bankers will find of interest, as the CARES Act contains several bank-related provisions that are designed to ease regulatory burden and to encourage the extension of credit to bank customers. These provisions include:

- **Temporary community bank leverage ratio (CBLR).** The CARES Act required the CBLR to be temporarily set at 8 percent (rather than the 9 percent standard) and provides a “reasonable” grace period for qualifying banks to come into compliance. The interim final rule issued by the agencies expires December 31, 2020, or upon the termination of the national emergency declaration, whichever comes first.
- **Suspension of current expected credit loss (CECL).** The federal banking agencies are not permitted to require financial institutions to comply with the Financial Accounting Standards Board's Accounting

² See “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” March 22, 2020, available at www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200322a1.pdf.

³ See “Joint Statement Encouraging Responsible Small-Dollar Lending in Response to COVID-19,” March 26, 2020, available at www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200326a1.pdf.

⁴ See www.federalreserve.gov/newsevents/pressreleases/bcreg20200615a.htm.

Standards Update No. 2016-12 — including CECL reserving methodology — until December 31, 2020, or the termination of the national emergency declaration, whichever comes first.

- **Temporary relief from TDRs.** Financial institutions can suspend TDR accounting requirements for loan modifications related to COVID-19 for loans that were no more than 30 days past due as of year-end 2019. Banks need to keep records on the volume of loans affected by this provision, and the banking agencies are permitted to collect these data. This relief expires December 31, 2020, or 60 days after termination of the national emergency declaration, whichever comes first.
- **Extra time to file regulatory reports.** Bank holding companies with assets of less than \$5 billion received an extra 30 days to file their March 2020 Y-9C and Y-11 reports; banks received a 30-day extension to file call reports.

What Community Banks Are Doing

Many community bankers have been working around the clock to serve their customers, often taking on different roles than they are used to. Besides extending credit and working with borrowers through the Paycheck Protection Program (PPP) or other means, bankers have provided financial and other forms of assistance to their communities.

Paycheck Protection Program

I was very pleased to see that community bankers have served a vital role in the PPP. Armed with significant experience extending Small Business Administration (SBA) loans, community banks took the lead in getting PPP loans approved. According to the Department of the Treasury and the SBA, banks with assets of \$10 billion or less approved approximately 60 percent of PPP loans during the program's first round (see Table). The nation's smallest community banks — those with assets of \$1 billion or less — really punched above their weight, approving roughly 20 percent of loan dollars while accounting for just 6 percent of all U.S. banking assets.⁵

⁵ See "Statement from Secretary Steven T. Mnuchin and Administrator Jovita Carranza on the Success of the Paycheck Protection Program," April 17, 2020, available at www.sba.gov/article/2020/apr/17/statement-secretary-steven-t-mnuchin-administrator-jovita-carranza-success-paycheck-protection.

Community banks used their existing strengths and community connections to make the most of the PPP when it launched.

- **Community bankers are experienced SBA lenders.** Roughly one-quarter of the nation's top 20 SBA lenders are community banks. The national leader in SBA loans is a \$4.8 billion community bank.
- **Community banks made PPP loans a priority.** A community bank in Arkansas moved roughly one-third of its staff to its PPP lending function, while a Missouri community bank created a webinar for its customers giving them step-by-step training on how to participate in the PPP program.
- **Community bankers reached out to their communities.** An Eighth District community development financial institution (CDFI) aggressively reached out to its customers during the program's first round. The CDFI president credits the PPP program and the bank's strong outreach to its customers as key to ensuring that businesses in low- and moderate-income communities received vital funding.
- **Community bankers moved quickly.** Community banks from across the Eighth District were ready to make PPP loans as soon as the program launched in April 2020. They were able to disburse their first loans only hours after the SBA's loan portal opened.

Other Actions

I also witnessed community banks stepping up in other ways to aid their communities as the pandemic spread.

- A community bank in southern Illinois put together its own COVID-19 relief program, before the PPP launched, and offered its customers no-interest overdraft lines to be repaid with \$1,200 stimulus checks.
- A community bank in southern Missouri quickly built a "walk-up" teller window so that it could increase the number of customers it could serve at once while its lobby was closed to walk-in traffic.

Table: Paycheck Protection Program by the Numbers

	PPP Round 1	PPP Round 2 (as of 5/8/2020)
Total Available	\$350 billion	\$310 billion
Total Approved	\$350 billion	\$189 billion
Start Date	4/3/2020	4/27/2020
End Date (when all funds were exhausted)	4/16/2020	Program extended through 8/8/2020
# Loans	1.7 million	2.6 million
# Lenders	4,975	5,463
Average Loan Size	\$206,000	\$73,000
Lender Size <\$10 Billion: Lender Count	N/A	5,229
Lender Size <\$1 Billion and Nonbanks: Lender Count	N/A	4,475
Lender Size <\$1 Billion and Nonbanks: Number of Loans	N/A	570,723
Lender Size <\$1 Billion and Nonbanks: Dollars of Loans	N/A	\$29.9 billion

Source: Small Business Administration

- An Arkansas community bank extended and strengthened its Wi-Fi hotspots in some branches and encouraged families without home Wi-Fi to come to these branches so that students could do homework and parents could conduct business in the bank parking lots.

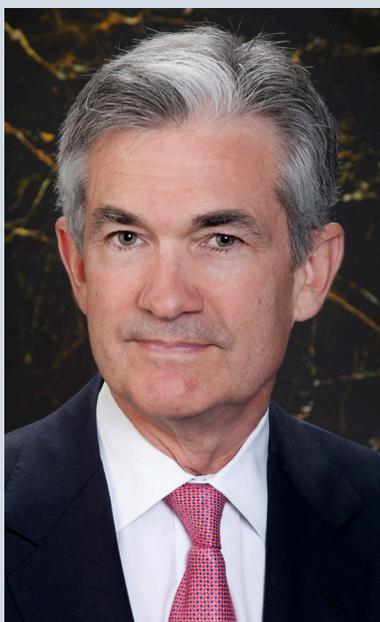
What's Next

Because of the rarity of this situation and the tremendous uncertainty that currently exists around the economy, the time and path of recovery are really unknowable. What is clear is that significant resources from both the public and private sectors will be called upon for crisis assistance for the foreseeable future. The Federal Reserve is one such resource and, as during the financial crisis of the past decade, stands ready to provide continuing and transparent support to the U.S. financial infrastructure, promote financial stability, and serve as a partner to the federal government. The sheer breadth and depth of the tools and programs that the Federal Reserve has supplied thus far speaks to the

creativity, expertise, and agility of its employees who work throughout the Federal Reserve System.

The public will also have the opportunity to see the strength of the community bank business model and how banks' close ties to their communities enable them to help their communities be resilient in the face of a global health crisis. We continue to hear stories from across the country about the many ways community bankers have stepped up, whether through staying up all night to be sure their customers' PPP applications were among the first submitted, providing food and personal protective equipment to first responders, or simply boosting their Wi-Fi signal so that kids could do their homework.

The road ahead will not be smooth. But the independent and joint efforts thus far of the public sector — including the Federal Reserve — and the private sector — especially community banks — indicate that we have the tools and the will to help communities large and small get back on their feet. ■



A Message from **Federal Reserve Chair Jerome H. Powell**

“...I want to acknowledge the tragic events that have again put a spotlight on the pain of racial injustice in this country. The Federal Reserve serves the entire nation. We operate in, and are part of, many of the communities across the country where Americans are grappling with and expressing themselves on issues of racial equality. I speak for my colleagues throughout the Federal Reserve System when I say that there is no place at the Federal Reserve for racism and there should be no place for it in our society. Everyone deserves the opportunity to participate fully in our society and in our economy. These principles guide us in all we do, from monetary policy, to our focus on diversity and inclusion in our workplace, and to our work to ensure fair access to credit across the country. We will take this opportunity to renew our steadfast commitment to these principles. We understand that the work of the Fed touches communities, families, and businesses across the country. Everything we do is in service to our public mission. We are committed to using our full range of tools to support the economy and to help assure that the recovery from this difficult period will be as robust as possible.”

Federal Open Market Committee Press Conference, June 10, 2020; available at www.federalreserve.gov/monetarypolicy/fomcpresconf20200610.htm

CDIAC: One Important Way the Board Takes the Pulse of Community Banks and the Economies They Serve

by Scott Zurborg, Senior Examiner, Supervision and Regulation, Federal Reserve Bank of Chicago

Community bankers frequently ask, “How are our perspectives and concerns heard and considered by regulatory agencies?” At the Federal Reserve, we have a unique answer to this question: the Community Depository Institutions Advisory Council (CDIAC).

In mid-June, Dorothy Savarese, chair and CEO of Cape Cod 5 and 2020 president of the national CDIAC; Ann Misback, secretary to the Federal Reserve Board; and Carmen Panacopoulos, senior business strategy manager for Regional and Community Outreach at the Federal Reserve Bank of Boston, met virtually with the author of this article for an informal and spirited conversation. They discussed the history and importance of the CDIAC, the respective roles they play in the Federal Reserve System, and their thoughts on issues such as the importance of diversity of thought and experience, as well as how the CDIAC process has adapted to address the COVID-19 pandemic.

The CDIAC has its roots in the long history of regular communication between the Federal Reserve Board and community depository institutions. In 1980, the Board established the Thrift Institutions Advisory Council (TIAC) to provide information and advice on the special needs and problems of savings and loan institutions, mutual savings banks, and credit unions. The TIAC operated until 2010, when former Governor Betsy Duke, who emphasized the importance of grassroots input to the Board, reimagined and revitalized the group by forming the CDIAC.

The CDIAC, which now operates under the oversight of Governor Michelle Bowman, provides direct communication among community depository institution stakeholders, the Reserve Bank presidents, and the Board. Each of the 12 Federal Reserve Banks (the Districts) maintains its own CDIAC, which is composed of executive officers from state-member, nonmember, and nationally

chartered banks, as well as thrift institutions and credit unions. The Board selects one member from each District’s CDIAC to serve on the national CDIAC. The national CDIAC is currently led by Savarese, who is primarily responsible for facilitating the national meetings with the Board as well as ensuring concise and pertinent discussions around key risks to community banks, among other important duties. The local CDIACs meet with their respective Reserve Bank presidents, while the national CDIAC meets with the Board.



The composition of each CDIAC is critical to its effectiveness. “The Board has such wide-ranging responsibilities, so it is important that Board members hear from a diverse group of financial institutions,” said Misback. She added that the CDIAC is not restricted to expressing views on regulatory issues.

“The Board is getting a sense of what is happening in smaller institutions and economies through the CDIAC, and the diversity of the charters and institution size helps to ensure all business lines and specialties are discussed,” she said.

Panacopoulos said the First District's selection process is three-fold: (1) maintaining relationships with depository institutions across the region, (2) obtaining a broad range of perspectives by ensuring that the District constituents are represented at the table, and (3) making sure that different perspectives are obtained through a diverse charter composition.

The Board and each of the Districts are strongly committed to diversity and inclusion, and this is seen in the diverse geographic, gender, and ethnic composition of the CDIAC membership, said Savarese. She said that, as a result, the Board hears broad perspectives that are representative of the Districts as a whole, rather than a subset of the diverse makeup.

"As someone who has traveled the country advocating for the value of diversity, it is heartening to see that this is both top-down and bottom-up, with a strong commitment from both the Board as well as the Districts," Savarese said. "The outcomes are always better when you have divergent and different points of view."

Panacopoulos noted that forming a CDIAC of community bank presidents and CEOs that is both racially and gender diverse can be difficult. "Incorporating diversity in terms of presidents and CEOs of color is challenging, as there are fewer candidates," she said. "There is an increasing number of institutions in the First District that are led by women, so we always try to make sure that we are looking through the diversity lens when identifying potential council members."

The CDIAC Process

The CDIAC draws from both leadership and on-the-ground perspectives to inform the Board of pertinent trends and risks to community banks and the customers they serve. Misback and her staff compile uniform agendas to guide discussions for the semiannual District CDIAC meetings. The agendas cover a range of topics, including local economic conditions, sector-by-sector lending trends, and regulatory issues. Each District CDIAC has nine to 12 members, who serve three-year terms. They meet at the Reserve Bank to discuss agenda items in depth.

"For the First District and national CDIACs, the selection process is really quite extraordinary," Savarese said. "You get people who are deep thinkers and understand they're not just representing their own organization, but their communities and industries as well."

District CDIAC members often reach out to peer institutions and business heads to ensure they reflect the District's array of perspectives to the council, Savarese said. "I don't know how they keep doing it," she said, "but it is clear that the Board and District staff stay in touch with the local institutions to find strong candidates."

Each District appoints a CDIAC chair, typically that District's member of the national CDIAC. The chair is responsible for facilitating the District meetings. National CDIAC members have their work cut out for them in Washington, D.C. The day before the scheduled meeting with the Board, the national president guides the CDIAC members through a structured session in which they consolidate District messages and arrange their comments for the discussion with the Governors. Accuracy and focus are essential to ensure the Governors hear the pertinent trends and emerging risks for community banks.

"I ask the members to infuse their comments with real-life anecdotes and facts drawn from their Districts," Savarese said. "That really brings to life the economic forces impacting the communities and community banks across the country. It provides insight into the diversity of the various economies and types of charters."

Savarese said the Board has made it clear it seeks the information and recommendations from the national council because it feels it's uniquely positioned to offer information on current conditions and expected outcomes on business and supervisory issues. Savarese noted that Board members also intensely prepare for the meeting, and their questions are well informed and at the right level for community depository institutions.

"It's great to see [Federal Reserve] Chair [Jerome] Powell and Governor [Lael] Brainard preparing and taking time to discuss the issues and trends," Savarese said. "It's also

gratifying to see Governor Bowman, a former community banker and state regulator, as CDIAC's oversight Governor. She really takes time to focus on the CDIAC and reaches out extensively to the community banking industry. All of the Governors show they are keenly interested in the answers, have thought about these areas, and that these are issues they want to probe."

CDIAC meetings aren't all talk either. There are actionable items that have been derived from the discussions between the Board and the national CDIAC.

Misback shared one example related to a Bank Secrecy Act/Anti-Money Laundering (BSA/AML) matter. The discussions from the CDIAC meeting were taken to the Board staff responsible for BSA/AML oversight and ultimately impacted supervisory guidance.

"This helped the CDIAC members see what can happen when they provide specific feedback that is actionable and constructive," Misback said. "Their perspectives can be seen in policies and regulations."

Although the CDIAC's work is demanding, a highlight for the members is attending a reception with the Governors and members of the Board's senior staff prior to the first meeting each year. Savarese said her time in Washington presents opportunities to create relationships with fellow council members, Governors, and Board staff.

"The experience is unique," she said. "After the CDIAC meeting in the Board room, the Governors will come over and sit next to you for informal lunchtime conversation. They really go out of their way to be as gracious as anyone could possibly be. For many CDIAC members, this is their first time at the Board, or their first time interacting with

someone in a policymaking position, and the Governors completely put people at ease."

COVID-19 and CDIAC Agility

The COVID-19 pandemic hit the United States swiftly and without bias. The Board and Districts had to react quickly to obtain up-to-date information about the economy. The national meeting took place in early April 2020, so the CDIAC was essential in providing real-time information to the Board.

"The great value of this kind of council is that the members provide observations from the ground level,"

Misback said. "They can share what's happening, what they think is going to happen, and how their Districts and communities are being impacted. This was invaluable information for the Board and was one of the first organized advisory council meetings the Board held after the pandemic started."

Since the meeting agendas had already been set, and some Districts had completed their spring meetings, the Board

and the Districts had to adjust quickly to ensure pertinent information was provided to the Governors. Misback and staff revised the agenda so the questions focused on a pandemic of completely unknown scope. The new agenda was redistributed to the District CDIACs, and the race was on to prepare for the meeting with the Governors.

Districts took up the initiative immediately and convened their local councils to gather information for the Board. This all happened at a time when community bank executives were also highly focused on the risk to their own institutions. However, all participants remained attentive to the duties of the CDIAC.

“The CDIAC draws from both leadership and on-the-ground perspectives to inform the Board of pertinent trends and risks to community banks and the customers they serve.”

Savarese recalled that during the meeting in the First District, Reserve Bank President Eric Rosengren had to leave the meeting because of an urgent matter. He returned after only a short time and stayed through the conclusion of the meeting.

The national CDIAC meeting went on, albeit virtually. Rather than convening in the Marriner S. Eccles building as usual, the Governors, CDIAC members, and Board staff met from their home offices, living rooms, and anywhere else they could find privacy in a work-from-home environment. Savarese said the governors engaged in a thoughtful and helpful conversation.

“They paid rapt attention to everything that was being said,” she said. “Not only that, but they came in with the most pertinent and timely questions, that were complex in nature, and took a lot of dialogue to work through.”

“In the end, the Governors said the conversation had been revelatory and that, in fact, they had learned so much,” Savarese added. “Every CDIAC member took that meeting so seriously because they knew this was history-making and a moment for them to help. One of the things this meeting process showed was the nimbleness of the Board and District levels. That has been evident through all of their efforts to help rescue our economy through this crisis.”

Misback added that the Board is extremely grateful for the time and attention that CDIAC members devote to the process.

“We realize this is volunteer activity,” she said. “The April meeting was an example of tremendous public service on the part of the CDIAC members. They spent time and energy to bring information to the Board at an extremely challenging time for themselves and their institutions.”

National CDIAC President Dorothy Savarese on the CDIAC Experience

Savarese is the chair and CEO of Cape Cod 5, a \$3.9 billion mutually owned and independent state-chartered savings bank on Cape Cod, Nantucket, and Martha’s Vineyard,

and in southeastern Massachusetts. She served as chair of the American Bankers Association and on the FDIC Advisory Committee on Community Banking before joining the Boston Federal Reserve Bank’s CDIAC in 2018. She was selected as the District chair in 2019 and national president in 2020.

“(The council) has shared many things that I have taken back and implemented at my institution,” Savarese said. “The dialogue with the Board does give us insight into their thinking. Sometimes understanding the ‘why’ is really critical. In every way, it makes me think more broadly, understand ramifications, direction. It challenges me. I meet people that I think are some of the smartest people I have ever met, and I come home a better CEO.” She added, “Many of the former CDIAC members I speak to say the CDIAC experience was the highlight of their career. In my mind there is no question as to why.”

When asked what she would say if a peer called her to solicit advice on accepting a role for their District CDIAC, Savarese responded with an emphatic, “Jump on this opportunity!”

“Be humbled by being asked,” she said. “It is a rigorous selection process. Recognize you have an enormous opportunity to benefit your District, your country, and your fellow community depository institutions, but also realize this will be something you will get back so much more than you give. It is a huge opportunity, leap for it.”

For more information about the District CDIACs, visit their respective Reserve Bank websites. Information on the national CDIAC and historical records of the meetings are available on the Board’s website at www.federalreserve.gov under the “About the Fed” tab. ■

The Federal Reserve System's Ombudsman and Amendments to the Material Supervisory Determination Appeals Process

by the Office of the Ombudsman of the Board of Governors of the Federal Reserve System



The Board of Governors of the Federal Reserve System (Board) has an Ombudsman's Office that serves individuals and financial institutions affected by the Federal Reserve System's (System) regulatory and supervisory activities. This article provides an overview of the Ombudsman's Office and explains recent amendments to the System's procedures for an institution to appeal a rating or other supervisory action (material supervisory determination [MSD] appeals process).

The Role of an Ombudsman

The term *ombudsman* is Swedish in origin (translating as *representative*). Its function is to assist "individuals and groups in the resolution of conflicts and concerns."¹ The ombudsman profession dates back to 1713, when King Charles XII of Sweden appointed an ombudsman to help promote good governance and conflict mitigation.² The role of ombudsmen has continued to evolve from its public sector origins and is now also used in the private sector and academia worldwide.³ Organizations and businesses that employ ombudsmen include the United Nations, the International Monetary Fund, the American Red Cross, the Inter-American Development Bank, the United States Olympic and Paralympic Committee, American Express, Coca-Cola, Mars Inc., and United Technologies Corporation.

There are different types of ombudsmen, including

organizational, advocate, and classical.⁴ The Federal Reserve's ombudsman is organizational in nature because it facilitates the informal resolution of concerns or disputes.

The Federal Reserve's Ombudsman's Office Establishment of the Office of the Ombudsman

In 1995, as required by the Riegle Community Development and Regulatory Improvement Act of 1994 (Riegle Act), the Board established the position of ombudsman. Other financial regulators, including the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency, also have ombudsmen. The Riegle Act directed each federal banking agency to appoint an ombudsman to:

- act as a liaison between the agency and any party with any problem the party may have in dealing with the agency as a result of its regulatory activities; and
- ensure that safeguards exist to encourage complainants to come forward and preserve confidentiality.⁵

¹ See the International Ombudsman Association website at www.ombudsassociation.org/what-is-an-organizational-ombuds.

² C. McKenna Lang, "A Western King and an Ancient Notion: Reflections on the Origins of Ombudsing," *Journal of Conflictology*, 2(2), 2011.

³ See Lang, 2011.

⁴ According to the International Ombudsman Association, an organizational ombudsman "serves as a designated neutral within a specific organization and provides conflict resolution and problem-solving services to members of the organization (internal ombuds) and/or for clients or customers of the organization (external ombuds)." An advocate ombudsman typically advocates on behalf of aggrieved individuals or groups, and a classical ombudsman typically investigates claims about government policies and processes and often makes recommendations for redress or policy changes. See www.ombudsassociation.org/ombuds-faq.

⁵ See 12 U.S.C. §4806(d)(2). In 2010, when Congress created the CFPB, it directed the CFPB to appoint an ombudsman to carry out these roles. See also 12 U.S.C. §5493(a)(5).

Responsibilities of the Ombudsman's Office

The Office of the Ombudsman is guided by four core values: independence, informality, fairness, and confidentiality. The office operates outside of the System's supervisory and regulatory processes and is therefore independent. It is housed within the Office of the Secretary, which is a separate division from the Board's supervisory divisions. Thus, the Ombudsman staff does not report to the supervisory staff.

The Office of the Ombudsman has three major functions. Primarily, it is available to facilitate the fair and timely resolution of complaints related to the System's

supervisory and regulatory activities. In performing this function, the Ombudsman's Office most commonly hears from representatives of state member banks (for which the System is the primary federal regulator) about a specific supervisory determination. For example, financial institutions have

contacted the Ombudsman's Office about supervisory component and composite ratings; findings in safety and soundness and consumer compliance examinations; timing, process, or other concerns relating to examinations; and the review and approval of pending applications. To help resolve such matters, the Ombudsman's Office works collaboratively with representatives of the supervised institution and with senior staff at the Board or Reserve Bank, as appropriate. In short, the Ombudsman's Office tries to facilitate productive communication and to keep the resolution process on track.

The Office of the Ombudsman also serves as an intake point for whistleblower complaints against supervised institutions or institution-affiliated parties. After receiving such a complaint, the Ombudsman's Office develops a plan for handling the matter based on the specific facts and circumstances. The office generally gathers information from the complainant and shares the

information with appropriate Board or Reserve Bank staff. However, if an individual wants to remain anonymous outside of discussions with the Ombudsman's Office, identifying information is not shared.

The Board's general practice is to attempt to resolve problems informally, unless the severity of the problem requires a formal approach. In keeping with this policy, the Office of the Ombudsman typically assists individuals or financial institutions before a formal process is initiated, often obviating the need to use a formal process. Moreover, the Ombudsman's Office can continue to assist an individual or institution in resolving a dispute even if

it has escalated to a formal process. The Ombudsman's Office has informally assisted financial institutions while an MSD is pending to provide information about the process and to help address issues that may arise.

The second major function of the Office of the Ombudsman is to investigate any claim that System staff has retaliated

against a supervised institution. The Board has a strict policy prohibiting retaliation. The Ombudsman's Office defines retaliation as any action or decision by Board or Reserve Bank staff that causes a supervised institution to be treated differently or more harshly than other similarly situated institutions because the institution has attempted to resolve a complaint by filing an MSD appeal or has used any other Board mechanism for resolving a complaint.⁶ Because of the ongoing relationships between financial institutions and the Board, the Office of the Ombudsman recognizes how difficult it can be for an institution to raise retaliation claims and ensures that all such claims are fully investigated. During this process, the Ombudsman's Office collects and reviews relevant documents, interviews witnesses, and consults with Board or Reserve Bank subject matter experts.⁷ Throughout the

“ The Office of the Ombudsman is guided by four core values: independence, informality, fairness, and confidentiality. ”

⁶ “Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System,” 85 *Federal Register* 15175, 15182 (March 17, 2020).

⁷ See 85 *Federal Register* at 15181.

course of an investigation, the Ombudsman's Office also attempts to resolve retaliation claims informally, such as through discussions with the institution that filed the complaint and relevant Board or Reserve Bank staff.⁸

At the conclusion of an investigation, the Office of the Ombudsman determines if retaliation occurred and reports its factual findings and determination to the director of the appropriate Board division, the appropriate Board committee or governor, and the appropriate Reserve Bank officer in charge of supervision.⁹ The Ombudsman's Office may also recommend to the appropriate division director that personnel involved in the claim of retaliation be excluded from the next examination of the institution or review that may lead to an MSD. However, the division director will make the final decision regarding any exclusions of System personnel from future examinations.

The third function of the Office of the Ombudsman is to provide feedback on patterns of issues.¹⁰ This function includes reporting to Board members and senior staff on issues that are likely to have a significant impact on the System's missions, activities, or reputation that arise from the Office of the Ombudsman's review of complaints, such as patterns of issues that occur in multiple complaints. This information includes aggregate data and may also include particular issues raised by institutions. To maintain confidentiality, the Office of the Ombudsman does not share any identifying information about an institution, unless expressly authorized to do so by the institution. This reporting function enables the Office of the Ombudsman to share directly with Board members and senior staff the office's perspective based on the concerns of individuals and financial institutions affected by the System's supervisory or regulatory activities.

In addition to performing these three major functions, the Office of the Ombudsman has established safeguards to protect the identity of the individuals and financial institutions. The Ombudsman's Office also protects the confidentiality of the information it receives; upon request, the email address and phone number are not accessible

⁸ See 85 *Federal Register* at 15181.

⁹ See 85 *Federal Register* at 15181.

¹⁰ See 85 *Federal Register* at 15181.

to anyone other than Ombudsman staff. The Office of the Ombudsman shares identifying and other information with System staff only if the individual or financial institution has explicitly authorized the office to do so, except if disclosure is required by law, in the event of imminent risk of serious harm or in the case of fraud, waste, or abuse.

In sum, the Office of the Ombudsman serves in most instances as an informal resource and advocates for a fair and timely resolution of disputes or concerns. An institution's use of the ombudsman is voluntary. The process of working through any dispute or issue depends on a financial institution's willingness to continue with the resolution process. If a financial institution or individual no longer wants to pursue resolution through the office, it can terminate the process at any time.

The Material Supervisory Determination Appeals Process

The first part of this article provided a background on the Office of the Ombudsman, while this section discusses the process by which MSDs may be appealed, the role of the office in handling these appeals, and recent amendments to the appeals process. The Riegle Act also directed the federal banking agencies to establish an "independent intra-agency appellate process" for the review of "material supervisory determination[s]" and to ensure that "appropriate safeguards exist for protecting the appellant from retaliation by agency examiners."¹¹ In response, the Board established an MSD appeals process in March 1995 and an Ombudsman policy in August 1995. The Board recently adopted an amended MSD appeals process and a revised policy, drawing on experience with and feedback on the original policy.¹² The purpose of the revised process is to improve and expedite the appeals process. Highlights of the amendments, which became effective on April 1, 2020, are summarized below.

The original process defined an MSD to include determinations related to examinations or inspection composite ratings, the adequacy of loan loss reserves, and significant loan classifications. The revised process clarifies that Matters Requiring Attention and Matters

¹¹ See 12 U.S.C. §4806(a),(b)(2).

¹² See 85 *Federal Register* at 15175.

Requiring Immediate Attention constitute appealable MSDs. Specifically, the revised process states that an MSD includes, but is not limited to, “any material determination relating to examination or inspection composite ratings, material examination or inspection component ratings, the adequacy of loan loss reserves and/or capital, significant loan classification, accounting interpretation, Matters Requiring Attention (MRAs), Matters Requiring Immediate Attention (MRIAs), Community Reinvestment Act ratings (including component ratings), and consumer compliance ratings.” The revised process clarifies that it excludes from an appealable MSD any referral of a matter to another government agency. Finally,

the revised process continues to exclude any supervisory determination for which an independent right of appeal exists.

The original appeals process consisted of three levels — an initial review panel, an appeal to the president of the Reserve Bank that issued the MSD, and an appeal to the appropriate Governor at the Board. The revised process has only two levels — an initial review panel and a final review panel, both of which have three members. Under the revised process, all appeals are filed with the Office of the Ombudsman. Generally, the initial review panel consists of three Reserve Bank employees, with the option for a Board employee to be appointed as one of the three members in appropriate circumstances. The final review panel must consist of at least two Board employees, at least one of whom must be an officer of the Board at the level of associate director or higher. Members of the review panels must not have been substantively involved in or, directly or indirectly, report to someone else who was involved in the MSD being appealed. Additionally, none of the panel members may be employees of the Reserve Bank whose MSD is being appealed.

Also under the revised, streamlined process, an institution must file an initial appeal within 30 calendar days of receiving the MSD, and the initial review panel will issue

a decision within 45 calendar days of the date the appeal is received.¹³ An institution must file a final appeal within 14 calendar days of the initial review panel’s decision, and the final review panel will issue a decision within 21 calendar days of the filing of a final appeal.¹⁴

The revised process also addresses a potential timing conflict between the Prompt Corrective Action (PCA) framework¹⁵ and the original MSD appeals process by expediting the appeals process. If an MSD being appealed relates to or causes an institution to become critically undercapitalized, the appeals process is further expedited. An institution must still file an initial appeal within 30

calendar days of receipt of the MSD, but the initial review panel will issue a decision within 35 calendar days of the date the appeal is received.¹⁶ An institution must file a final appeal within seven calendar days of the initial review panel’s decision, and the final review panel will issue a decision within 10 calendar days of the final appeal filing.

The revised process also defines specific standards of review applicable at each level of the appeal. The initial review panel considers whether the MSD being appealed is consistent with applicable laws, regulations, and

policy and is supported by a preponderance of evidence in the record. The initial review panel will make its own supervisory determination and will not defer to the judgment of the Reserve Bank staff who made the MSD

Continued on page 31

“ The Office of the Ombudsman serves in most instances as an informal resource and advocates for a fair and timely resolution of disputes or concerns. ”

¹³ The initial review panel may extend the period for issuing a decision by up to 30 calendar days if it determines that the record is incomplete and that additional fact-finding is necessary for the panel to issue a decision.

¹⁴ The final review panel may extend the period for issuing a decision by up to 30 calendar days if it determines an extension is appropriate.

¹⁵ For an overview of the PCA framework, refer to section 4133.1 of the Board’s *Commercial Bank Examination Manual*, available at www.federalreserve.gov/publications/files/cbem-4000-202004.pdf.

¹⁶ This period may be extended by up to an additional seven calendar days if the initial review panel decides that such time is required to supplement the record and consider additional information received.

Steps to Prepare for the Cessation of LIBOR

by Loren Lozano, Supervision Analyst, Financial Market Infrastructure Function (FMIF), Federal Reserve Bank of New York*

The financial industry is less than a year and a half away from the day when the London Interbank Offered Rate (LIBOR) is no longer guaranteed and may end. Even though the COVID-19 pandemic understandably may have caused some delays in banks' LIBOR transition plans and efforts, the U.K. Financial Conduct Authority, which regulates LIBOR, asserted in late March 2020 that "[t]he central assumption that firms cannot rely on LIBOR being published after the end of 2021 has not changed and should remain the target date for all firms to meet."¹ The Federal Reserve understands that COVID-19 continues to impact community banks, their operations, and their customers. Although efforts to address the impact of COVID-19 should take priority, banks of all sizes should remain mindful of the preparation needed for the discontinuance of LIBOR in the near future.

A *Community Banking Connections* article² last year provided background information on the transition away from LIBOR and discussed the planning efforts to move to alternative reference rates in the United States. As noted in that article, the expected discontinuance of LIBOR is important for all banks, including community banks, which may have LIBOR exposures on the asset or liability sides of their balance sheets.

This article provides a summary of the Federal Reserve's supervisory engagement on the LIBOR transition with state member community banks, outlines the various

* The author thanks Scott Nagel, Supervisory Policy & Strategy, Federal Reserve Bank of New York; Cam Fuller, FMIF, New York Fed; and Dejana Krstanovic, Board of Governors of the Federal Reserve System, for their contributions to this article.

¹ See the Financial Conduct Authority statement, "Impact of the Coronavirus on Firms' LIBOR Transition Plans," at www.fca.org.uk/news/statements/impact-coronavirus-firms-libor-transition-plans.

² Cam Fuller and Grant Zappulla, "The Transition Away from the London Interbank Offered Rate (LIBOR)," *Community Banking Connections*, First Issue (2019), pp. 12–13, available at www.cbefrs.org/articles/2019/i1/libor.

risks that banks may face during the transition as well as steps to address them, and expands on developments in alternative reference rates.

Assessing Community Banking Preparedness

As noted in a joint statement issued by the Federal Financial Institutions Examination Council (FFIEC) in July 2020,³ key themes that banks should address in the LIBOR transition include legal risk, operational risk, and consumer risk. One source of legal and consumer risk is a lack of appropriate fallback language in loan terms or legal documents underlying financial transactions. Fallback language specifying which interest rate will be used, or a mechanism for determining the successor rate in the event that LIBOR no longer exists, can protect consumers and institutions from uncertainty and disadvantageous outcomes.⁴ As for operational risk, LIBOR may be embedded in systems, formulas, and financial models; creating cohesive solutions that replace LIBOR as an input to all of these systems and models may prove complex and challenging.

How Can Community Banking Organizations Prepare for LIBOR's Cessation?

Community banks can and should take timely steps to prepare for this transition. The first step is to understand the current level of LIBOR exposure at the bank. Typically at community banks, LIBOR may be used in some loan products, such as syndicated loans, retail mortgages, and commercial real estate/commercial mortgages, but LIBOR can also be tied to derivatives, such as interest rate swaps

³ The "Joint Statement on Managing the LIBOR Transition" is available at www.ffiec.gov/press/PDF/FFIEC%20Statement%20on%20Managing%20the%20LIBOR%20Transition.pdf.

⁴ Fuller and Zappulla, 2019.

used for hedging purposes.⁵ Once a bank understands its exposure to LIBOR, it can use that inventory to inform its review of associated financial contracts to ensure appropriate fallback language is in place. The Alternative Reference Rates Committee (ARRC) has provided suggested contract fallback language for a variety of financial products,⁶ all of which can be found on the ARRC website.⁷ Banks with derivatives exposures to LIBOR should plan to adhere to the International Swaps and Derivatives Association's protocol, which will be offered soon to allow participants to update the fallback language in their derivative products.

“Although efforts to address the impact of COVID-19 should take priority, banks of all sizes should remain mindful of the preparation needed for the discontinuance of LIBOR in the near future.”

The next course of action is to assess and address operational readiness of systems and models, both those maintained within the bank and those delivered by third-party service providers. Given the prevalent use of third-party service providers by community banks, it is critical that banks confirm that these services will be updated in a timely manner. The FFIEC joint statement encourages financial institutions to reach out to third parties that provide valuation/pricing services. As noted in the FFIEC statement, for services that reference or use LIBOR as well as those that provide modeling, document preparation, or

⁵ Fuller and Zappulla, 2019.

⁶ The “ARRC Fallback Contract Language” is available at www.newyorkfed.org/arrc/fallbacks-contract-language.

⁷ See www.newyorkfed.org/arrc.

accounting, banks should determine whether the providers will be able to accommodate alternative reference rates. Additionally, systems that provide processing of loan, investment, funding, or derivative transactions should be evaluated for preparedness and transition planning.

In January 2020, the ARRC issued a survey to vendors whose products and services were identified as potentially impacted by the LIBOR transition. The purpose of the survey was twofold: (1) to provide a structure for vendors to perform a self-assessment of their readiness; and (2) to inform the ARRC and market participants on transition readiness and challenges.⁸ More recently, the ARRC has recommended specific timelines for vendor readiness as part of its best practices.⁹ Although these efforts by the ARRC may have raised awareness among vendors on assigning priority to the transition, community banks are encouraged to contact their vendors sooner rather than later to fully understand vendors' plans for the transition of services.

Banks should then develop a strategy to address consumer protection risks and ultimately reach out to customers about transition plans. The FFIEC joint statement explains that transition plans should identify affected consumer loan contracts, highlight necessary risk mitigation efforts, and address development of clear and timely consumer disclosures regarding changes in terms. Additionally, the ARRC released reference guides for transitioning LIBOR-based adjustable-rate mortgages¹⁰ and private student loans,¹¹ which can further address consumer impact from the LIBOR transition. Consumer impact is tied to reputational risk and legal risk, and, although the transition away from LIBOR affects all banks, community banks are especially tied to their customer bases,

⁸ “Re: ARRC’s Request for Information Regarding LIBOR Transition Plans” is available at www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Vendor_Questionnaire.pdf.

⁹ See www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-Best-Practices.pdf.

¹⁰ Guides are available at www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/LIBOR_ARM_Transition_Resource_Guide.pdf.

¹¹ See www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/Legacy_LIBOR-Based_Private_Student_Loan_Transition_Resource_Guide.pdf.

highlighting the importance of consumer communications during the shift.

Alternative Rates

The ARRC identified the Secured Overnight Financing Rate (SOFR) as its recommended alternative rate to U.S. dollar LIBOR. The industry's attention on the LIBOR transition to date has focused significantly on SOFR, and market participants have settled on transitioning toward SOFR for certain products, such as derivatives, once LIBOR is discontinued. However, there are other alternative rates that banks may wish to use, and community banks should conduct their own due diligence when selecting which alternative rate or rates would be most appropriate. Such considerations could include whether the alternative rate reflects the bank's own cost of funding and whether the rate's credit sensitivity is an important factor for the bank's own risk management purposes.¹²

Supervisory Next Steps

In 2019, Federal Reserve state member community bank examiners were requested, on a best-efforts basis, to complete questionnaires on individual banks' awareness and preparedness for the LIBOR transition. This was not a formal evaluation of the banks' transition efforts, but rather an informal gathering of information to better understand themes that might merit attention within the community bank portfolio. Although the results represent responses for only a portion of the supervised community state member banks, they showed that the responding banks were aware of the transition and are in various stages of preparations. However, nearly two-thirds of the responding banks had not conducted legal contract reviews, only one-third of these banks had assessed their operational infrastructure to determine if changes might be needed, and nearly three-fourths

¹² In June 2020, the Federal Reserve Bank of New York hosted the first of a series of Credit Sensitivity Group workshops to build an understanding of the challenges that banks of all sizes and their borrowers may have in transitioning loan products from LIBOR and to explore potential methodologies to develop a robust lending framework that considers a credit-sensitive spread that could be added to SOFR.

Learn More About the LIBOR Transition

The Alternative Reference Rates Committee (ARRC)

Resources including the most recent guidance and Frequently Asked Questions

www.newyorkfed.org/arrc

ARRC Fallback Contract Language

Contract language for specific products

www.newyorkfed.org/arrc/fallbacks-contract-language

International Swaps and Derivatives Association

Information on benchmark reform and the transition from LIBOR

www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/

Secured Overnight Financing Rate (SOFR)

Daily SOFR statistics and other information

<https://apps.newyorkfed.org/markets/autorates/SOFR>

of these banks had not developed a strategy to communicate with their customers and clients on the implications of the LIBOR transition.

Following the results of the 2019 questionnaire and similar information-gathering efforts in other supervisory portfolios, the Federal Reserve is now deepening its supervisory engagement on the LIBOR transition. For the community state member banks, Federal Reserve examiners have been gathering additional information on banks' preparatory efforts for the transition, which will be used to inform the Federal Reserve's understanding of industry preparedness and any gaps that banks may need to address. ■

Maintaining Strong Cybersecurity Controls Is Imperative as Online Threats Increase

by Benjamin Clem, Senior Bank Examiner, Supervision, Regulation, and Credit, Federal Reserve Bank of Richmond and Michelle Fitch, Advanced Bank Examiner, Supervision, Regulation, and Credit, Federal Reserve Bank of Richmond

Leading up to the COVID-19 pandemic, bankers, regulators, and trade groups consistently mentioned cybersecurity as a top risk facing the banking industry.¹ Cyberthreats are evolving, and cybercriminals are launching an increasing number of attacks. The coronavirus pandemic has created new opportunities for hackers to use these tactics. Bank management is encouraged to maintain a strong cybersecurity program to deter cybercriminals from exploiting this current health crisis.

This article discusses online threats and the prudent controls bank management can use to protect their financial institutions from these threats. In particular, this article focuses on ransomware, which is a specific type of malware² that cybercriminals are using more frequently, and explains the importance of staying up to date on industry best practices and guidance. In this article, the risks and controls are discussed at a high level; therefore, this should not be considered a comprehensive guide for mitigating cybersecurity risks. More detailed guidance and examination considerations can be found in the Additional Resources box on page 24.

Ransomware Attacks on the Rise

Ransomware is a type of malware that encrypts the files on a computer or within a system, enabling an attacker to demand a payment in exchange for the user regaining access. Perhaps the most significant ransomware attack

was the WannaCry attack in 2017,³ which gained notoriety because of its widespread reach infecting computers across the globe. The number of ransomware attacks has increased steadily in recent years. According to the 2020 Beazley Breach Briefing,⁴ which provides information on cyber trends based on information from its clients, ransomware attack notifications against its clients increased 131 percent year over year to 775 incidents in 2019. Financial institutions represented 16 percent, or 124, of the reported incidents.

The Beazley Breach Briefing also states that the two most common means of deploying ransomware are phishing emails and poorly configured or secured remote access. The pandemic has provided cybercriminals with more opportunities to use these tactics, as many banks are operating in a modified environment in order to protect their staffs and serve their customers and communities. This environment includes more remote work by employees and vendors, which could increase the possibility of a breach if appropriate controls and security systems are not in place. Additionally, hackers are using targeted phishing schemes that give the appearance of legitimate coronavirus-related emails. According to Barracuda Networks,⁵ coronavirus-related email attacks began in January and grew exponentially in March. Through March 23, 2020, coronavirus-related email phishing attacks increased 667 percent from February 2020 totals to 9,116 incidents.

¹ For example, 571 institutions responded to the 2019 Conference of State Bank Supervisors' national survey of community banks, and the results indicate cybersecurity is viewed by bankers as the most important risk to their organization. For more information, see www.communitybanking.org/~media/files/publication/cb21publication_2019.pdf.

² Malware is a malicious code used by cybercriminals. A computer virus is an example of malware.

³ For more information about the WannaCry ransomware, see U.S. Department of Homeland Security, "What Is WannaCry/WanaCryptor?," available at https://us-cert.cisa.gov/sites/default/files/FactSheets/NCCIC%20ICS_FactSheet_WannaCry_Ransomware_S508C.pdf.

⁴ The 2020 Beazley report is available at www.beazley.com/news/2020/beazley_breach_briefing_2020.html.

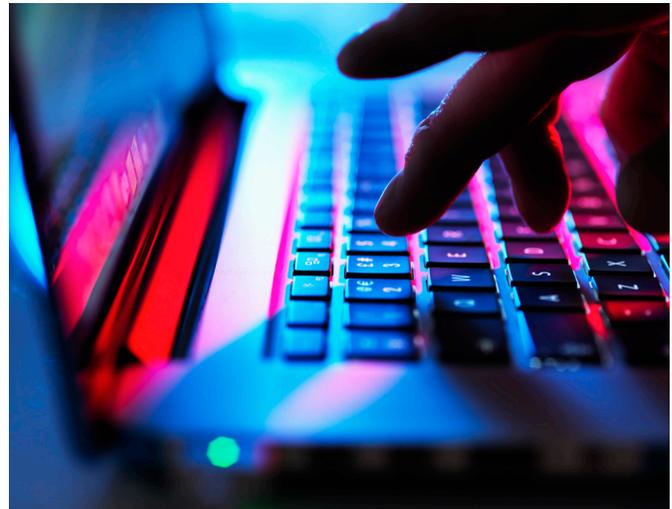
⁵ This information is based on spear-phishing email attacks detected by Barracuda Sentinel. See <https://blog.barracuda.com/2020/03/26/threat-spotlight-coronavirus-related-phishing/> for more information.

Key Internal Controls

To prevent ransomware attacks and secure customers' information, senior bank management should validate that key controls are in place. Additionally, proper cyber hygiene, with a focus on endpoints and connection points to the bank's network, can help neutralize the spread of ransomware in the event the systems are breached. Listed below are several key internal controls that can help protect an organization against ransomware attacks:

- **Antivirus and Antispam Applications** — Verify that antivirus and antispam solutions are current and actively running on all network devices. In particular, enable antivirus programs to automatically update virus signatures. Antispam software will assist in stopping phishing emails from reaching the network. If possible, a warning banner should appear on all external emails. This will alert users to review external emails thoroughly and help prevent clicking on links and opening attachments from suspicious sources.
- **Patch Management** — Patching all hardware, operating systems, software, and applications (including cloud locations) helps mitigate and fix known vulnerabilities that can be used in a ransomware attack. If possible, use a centralized patch management system and implement appropriate application⁶ and software restriction policies to prevent the execution of programs in common ransomware locations, such as temporary folders. Implementing configuration management or standardizing the settings and installations for hardware and software configurations can help limit the areas of vulnerability within the network and the patching required. Lastly, given the increased remote work by employees and vendors, it is important to validate that patch management tools and practices are in place for timely and systemic patching of remote devices.

⁶ Only applications that have been added to a pre-approved list should be allowed to run within the network. Consequently, any applications that are not on this list should be blocked from running.



- **Identify and Authenticate** — User access controls are a cornerstone for any information security program and can help prevent poorly secured remote access. Bank management should continue to apply the principles of least privilege and network segmentation where possible.⁷ It is important that employees access the bank's network using a secure connection and equipment that is approved for use based on the bank's remote access policy. Remote access protocols can be strengthened by adding time-of-day restrictions to each user, in accordance with business needs. Additionally, employees should use multifactor authentication, such as one-time passcode generators or physical tokens, and encryption to secure communications. Consider the use of a proxy server for internet access points and ad-blocking software. Restricting user access to common ransomware entry points, such as social networking sites and personal email accounts, while logged into the bank's network will help reduce the possibility of clicking on malicious links. Finally, bank management should include appropriate security requirements in contracts with third-party vendors that have access to the organization's network and monitor compliance with the agreed-upon cybersecurity protocols.

⁷ Network segmentation is the process of splitting a network into subnetworks, each protected by a firewall. This can help mitigate the impact of a malware attack by isolating it to a particular subnetwork.

- **Data Backups** — Bank management should establish a backup system that allows multiple iterations of backups to be saved in case a copy includes encrypted or infected files. The bank's information technology (IT) management should routinely test the backup system for data integrity and to determine if recovery point and recovery time objectives (established in the business continuity plan) are met.
- **Training** — The most common threat to any organization is human error, which can undermine any sound system of controls. Successful training programs provide concentrated and frequent education on how to avoid these human errors and include information on phishing schemes, ways to identify phishing attempts, and the bank's incident response plan. Employees should be trained on how to identify suspicious emails and to avoid clicking links or opening attachments in such emails. Encourage employees to exercise caution before visiting unknown websites. Providing frequent reminders to staff to remain vigilant is particularly important as cybercriminals attempt to capitalize on the pandemic. Finally, taking steps to educate customers on how they can protect themselves from cyberthreats may help reduce fraud at the bank while also adding value for the customer. Customers can be educated through a variety of means, including providing educational pages on the bank's website, sponsoring outreach events, or making informational pamphlets available in the branch lobbies.

Incident Response Plan

In order to respond effectively to a ransomware attack, bank management should establish an effective incident response plan. Responsibilities for executing the plan should be assigned, adequate training should occur, and the plan should be sufficiently tested. When possible, relevant stakeholders and third-party providers should be included when testing the plan. Additionally, bank management should periodically review and update the incident response plan based on changes to the bank and/or the cyberthreat landscape. A key component of this

plan is how bank management will act in the event of a ransomware attack. When reviewing the bank's incident response plan, personnel can consider the following key elements of a comprehensive plan:

- **Identification** — The incident response plan should outline indicators used to identify potential security breaches. Indicators may come from a variety of internal and external sources, including anomalies identified in monitoring logs, alerts from intrusion identification systems and tools, or information obtained from customers, law enforcement agencies, or other organizations. Additionally, the plan should define the roles and responsibilities for staff or outside vendors to investigate potential indicators. The tools available to the institution to assist in performing the investigation should also be detailed within the plan. When a breach is confirmed, the investigation should identify the systems and information affected.
- **Containment** — Once the source of breached systems and information is identified, the incident response plan should detail how to contain the damage. Bank management should perform the following:
 - Stop the virus spread by isolating any systems that have been compromised
 - Employ enhanced monitoring activities to identify if any additional systems become compromised
 - Reset passwords for accounts that were breached or block accounts that may have caused the incident

When forensic analysis is necessary, the incident response plan should also detail which firms the bank may use for forensic analysis (considering any applicable cyber insurance policy). The plan should also discuss by what means evidence will be collected and preserved.

- **Restoration** — Bank management should perform restoration and follow-up strategies as outlined in

the *Federal Financial Institutions Examination Council (FFIEC) Information Security Booklet*.⁸ The strategies should include:

- Eliminating the attacker’s means of further accessing the system
 - Restoring the bank’s systems, programs, data, and files to their previous working state
 - Monitoring the bank’s systems to quickly identify similar or related incidents
- **Communication** — When navigating through an incident, management should be responsible for keeping key stakeholders informed:
- **Customers:** The incident response plan should outline how security events will be reported to customers in a timely manner, adhering to applicable statutory or regulatory compliance obligations. SR letter 05-23, “Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice,”⁹ highlights “if the institution determines that misuse of its information about a customer has occurred or is reasonably possible, it should notify the affected customer as soon as possible.”
 - **Insurance Company:** If the bank has purchased a cyber insurance policy, notifying the insurance company as soon as the breach is identified is imperative. Most carriers have reporting windows in which clients must file a claim. These windows will typically begin on the day the breach is identified, and claims are often denied if filed after the designated time period.
 - **State and Federal Regulators:** The incident response plan should align notification requirements with state and federal

regulatory guidelines. As it pertains to federal regulators, SR letter 05-23 notes an institution should “notify its primary regulator of a security breach involving sensitive customer information, whether or not the institution notifies its customers.” This notification allows regulators to use incident information “to inform future supervisory guidance and identify trends in information security developments.” Finally, bank management should determine if a Suspicious Activity Report will be filed.

Cyber Insurance

The Federal Reserve and the other member agencies of the FFIEC issued a joint statement on April 10, 2018, “Cyber Insurance and Its Potential Role in Risk Management Programs,” to provide awareness of the potential role of cyber insurance in financial institutions’ risk management programs.¹⁰ While cyber insurance may be an effective tool for mitigating financial risk associated with cyber incidents, the agencies do not require banks to have this insurance.

Some banks have purchased cyber insurance policies to offset financial losses resulting from cyber incidents. If an institution already has an insurance policy to cover cyber incidents or is considering obtaining coverage, bank management should involve the IT individuals who best understand the bank’s policies, procedures, and internal controls so that the appropriate coverage is obtained. These individuals should also be consulted to evaluate whether or not the bank’s policies, procedures, and internal controls are aligned with the requirements specified in the insurance policy; they should also make sure any insurance application or renewals are filed appropriately. Misrepresentations, omissions, concealments, or incorrect statements in a bank’s application for insurance may be grounds for rescission of the policy.

⁸ See the *FFIEC Information Security Booklet*.

⁹ SR letter 05-23 is available at www.federalreserve.gov/boarddocs/srletters/2005/sr0523.htm.

¹⁰ Refer to the FFIEC website at www.ffiec.gov/cybersecurity.htm for related materials on cybersecurity awareness.

Additional Resources

Supervision and Regulation (SR) Letters

SR Letter 11-9

“Interagency Supplement to Authentication in an Internet Banking Environment”
Discusses risk assessment requirements and expectations on controls to mitigate risk of identification theft and incidents

www.federalreserve.gov/supervisionreg/srletters/sr1109.htm

SR Letter 05-23

“Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice”
Describes components of a response program and procedures to notify customers about incidents

www.federalreserve.gov/boarddocs/srletters/2005/sr0523.htm

SR Letter 05-19

“Interagency Guidance on Authentication in an Internet Banking Environment”
Discusses security measures to reliably authenticate customers

www.federalreserve.gov/boarddocs/srletters/2005/sr0519.htm

FFIEC IT Booklets

Business Continuity Management

Focuses on pertinent information related to incident response

<https://ithandbook.ffiec.gov/it-booklets/business-continuity-management.aspx>

Information Security

Discusses effective information security programs

<https://ithandbook.ffiec.gov/it-booklets/information-security.aspx>

FFIEC Cybersecurity Assessment Tool

Provides a tool to help assess an institution’s cybersecurity risk and preparedness

<https://www.ffiec.gov/cyberassessmenttool.htm>

Conclusion

Cybercrimes are evolving, and cybercriminals are exploiting the disruptions caused by the global pandemic. Therefore, individuals who are responsible for bank cybersecurity should stay informed on the latest industry guidance. A sound control environment is the most effective way to prevent incidents at financial institutions. In the event the bank’s system is breached,

it is imperative that bank management and staff are well trained to execute the bank’s incident response plan. This is a challenging time for the banking industry; however, maintaining a strong cybersecurity program should remain a priority to prevent cybercriminals from getting a foothold in your institution. ■

2020 Writers' Cohort

Meet the Cohort Chairs

When the *Community Banking Connections (CBC) Writers' Cohort* was first formed, Ben Clem and Jennifer Grier stepped up into the roles of cohort chairs to represent their peers. In addition to writing for the publication, they frequently attend CBC production meetings, provide status updates on the articles being written, and serve as liaisons between the writers and the CBC advisory board and editorial and production functions. We posed some questions to them to get to know them better. As you will see from their responses, they offer enthusiasm, reflection, humor, and a fresh perspective.

Jennifer Grier

Senior Examiner, Supervision, Regulation, and Credit, FRB Atlanta



How long have you been with the Fed?

As of July 2020, I have worked at the Fed for 28 years. I would like to say that I participated in the Fed's pilot "Toddler Internship Program," but the truth is that I am one

of many long-tenured Fed employees. I am very fortunate that I have been able to change careers three times at the same organization. After working for a commercial bank out of college, I was hired at the Atlanta Fed in the Community Affairs (CA) Department to help facilitate public-private partnerships between nonprofits and financial institutions that promote community development lending and investments in low- and moderate-income communities. It was rewarding work that allowed me to strengthen my analytical, writing, and public-speaking skills. After 16 years in CA, I accepted an opportunity to work in a newly formed function focused on research in fraud and risk in retail payments. I immersed myself in the subject matter (including obtaining an Accredited ACH Professional certification), researched and wrote papers on emerging payments risk, and even hosted a quarterly podcast. For the past 10 years, I have pursued my third career at the Fed in Supervision, Regulation, and Credit as a senior examiner in the Regional and Community Bank Group. As a bank examiner, I am able to leverage all of my skills and experience in supporting the overarching goal of ensuring the health and soundness of the financial system.

We're in the midst of a crisis now, but this isn't the first crisis to directly impact you, is it?

On September 11, 2001, I was on a flight from Amsterdam headed home to Atlanta when the pilot announced that we

would need to make an emergency landing. It was not until we had landed and spent nearly nine hours on the tarmac that the news trickled out to the passengers that there had been a terrorist attack in the U.S. We were among 40 aircraft and 8,000 passengers who were diverted to Halifax Stanfield International Airport on that day. And shockingly, it wasn't until much later that evening that I finally saw the devastating images of the planes that hit the World Trade Center and the Pentagon. It was a harrowing experience, but I will never forget the kindness of the Canadians who opened their hearts to thousands of unexpected guests. Many Nova Scotians welcomed stranded passengers into their homes, and others dropped off donations at the various temporary housing sites. I spent four days and three nights at a convention center, where we were fed three hot (and delicious) meals a day and provided essential items. Without question, I was extremely happy when we were able to leave, and I landed safely back in the U.S. But I feel very fortunate to have experienced firsthand the kind and generous spirit of strangers in the midst of a crisis that made a lasting impression on my life.

What are you most passionate about?

Starting in 2001, I have been an avid supporter of the Susan G. Komen Breast Cancer 3-Day Walk. Last year marked my 12th time participating in the 60-mile journey over the course of three days to raise awareness and funds to support breast cancer research. I have walked in two cities (Atlanta and San Diego) and made countless lifelong friends from across the country. My passion to walk every year for this cause was sparked by a personal loss in 2009. I was initially touched by this disease through my friend, Cheryl. A wife and mother of two young children, she lost her battle with triple negative breast cancer at the age of 41. So every year I walk in Cheryl's memory and for the thousands of women who have succumbed to this disease in hopes that each step will bring us closer to a cure. Although the 3-Day events were canceled this year due to the COVID-19 pandemic, I look forward to lacing up my walking shoes for another 60-mile journey in 2021.

Ben Clem

Senior Examiner, Supervision, Regulation, and Credit, FRB Richmond



What brought you to the Fed?

I began working for the Federal Reserve Bank of Richmond after I graduated from Virginia Tech in May 2011. My future mother-in-law encouraged me to apply for a traveling examiner position. Admittedly, I initially questioned whether or not she was trying to create separation between me and her daughter. However, the more I considered the opportunity, the more I was excited about a career in supervision and regulation at the Federal Reserve. At that time, our nation was rebounding from the Great Recession, and the regulatory environment was becoming more dynamic. Luckily, the decision to join the Fed has paid off, as I was able to learn a ton and have a proud mother-in-law.

How have you been keeping busy during the pandemic?

I absolutely love to golf. During this pandemic, I have spent countless hours putting inside and swinging a club in my garage. Thankfully it has paid off, and I've shaved a few strokes off my handicap. Two of my favorite

experiences were attending The Masters and visiting Pebble Beach.

What one word would you use to describe yourself?

I was surprised to find this in the *Merriam-Webster Dictionary*, but the word I would choose is FOMO (fear of missing out). There is nothing I enjoy more than getting together with friends and having a good time. I've never really understood the folks who wish to live vicariously

through someone else; that would drive me nuts.

What one person (living or dead) would you like to have dinner with and why?

I'll go with Will Ferrell. I think he is hilarious and, given how tough 2020 has been, I could really use a good laugh and entertaining night out. Maybe if I'm lucky, he would switch into his Ron Burgundy character and play some jazz flute. ■

Cohort Members:

Kerri Allen, Examiner, Examinations & Inspections, FRB Kansas City, **Robert Crepinsek**, Examiner, Supervision, Regulation, and Credit, FRB Boston, **Anthony Gonitzke**, Senior Examiner, Financial Institution Supervision and Credit, FRB San Francisco, **Jordan Jhamb**, Financial Analysis Associate, RCFI, FRB New York, **William Mark**, Lead Examiner, Supervision and Regulation, FRB Chicago, **Kalyn Neal**, Examiner/Supervisory Specialist, Examinations & Inspections, FRB Kansas City, **Alex Shelton**, Portfolio Central Point of Contact/ Senior Examiner, Supervision, Regulation, and Credit, FRB Richmond, **Scott Zurborg**, Senior Large Bank Examiner, Supervision and Regulation, FRB Chicago



On June 23, 2020, the Federal Reserve Bank of Philadelphia and the Board of Governors of the Federal Reserve System hosted a virtual fintech symposium.

The conference provided a platform for members from the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the U.S. Securities and Exchange Commission, and experts from the fintech industry to discuss and understand the fintech environment and the impact of the COVID-19 pandemic on fintech providers and fintech/banking partnerships.

The fintech symposium video is available for viewing at <https://youtu.be/lwWcqlMnVq8>.

In response to the COVID-19 crisis, the Federal Reserve and its federal and state regulatory counterparts continue to take steps to ease regulatory burden and support the flow of credit and liquidity. For a comprehensive list of Federal Reserve or interagency rulemakings and statements related to the pandemic, visit the Federal Reserve's COVID-19 Resources page, available at www.federalreserve.gov/covid-19.htm. Below are highlights of the regulatory and policy actions taken by the Federal Reserve.

Actions Related to Safety and Soundness Policy

- Joint Statement on Additional Loan Accommodations Related to COVID-19:** The Federal Reserve and the other members of the Federal Financial Institutions Examination Council (FFIEC) issued a statement covering risk management, consumer protection principles, and accounting treatment that institutions may find relevant as they work with borrowers who were granted initial loan accommodations due to the pandemic and now may need additional accommodations. Supervision and Regulation (SR) letter 20-18/Community Affairs (CA) letter 20-13, issued on August 3, 2020, is available at www.federalreserve.gov/supervisionreg/srletters/SR2018.htm.
- Confidential Supervisory Information (CSI):** The Federal Reserve adopted a rule that implements technical, clarifying updates to its Freedom of Information Act procedures and changes to its rules for the disclosure of CSI, which is supervisory information belonging to the Board that may include proprietary financial institution-specific information. The press release, issued on July 24, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200724a.htm.
- Situations in Which Holding Companies May Expect Expedited Consultation on the Payment of Dividends:** The Federal Reserve issued Attachment C to SR letter 9-4 on July 24, 2020, to clarify the situations in which holding companies may expect an expedited Reserve Bank consultation on a firm's plan to declare a dividend. SR letter 09-4 is available at www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm.
- Joint Statement on the London Interbank Offered Rate (LIBOR) Transition:** The Federal Reserve and the other members of the FFIEC issued a statement to highlight the risks that will result from the expected discontinuation of LIBOR and to encourage supervised institutions to continue their efforts to transition to alternative reference rates. SR letter 20-17/CA letter 20-12, issued on July 24, 2020, is available at www.federalreserve.gov/supervisionreg/srletters/SR2017.htm.
- Examiner Guidance:** The federal financial institution regulatory agencies, in conjunction with the state bank and credit union regulators, issued examiner guidance to promote consistency and flexibility in the supervision and examination of financial institutions affected by the COVID-19 pandemic. The press release, issued on June 23, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200623a.htm. The related supervisory letter, SR letter 20-15, is available at www.federalreserve.gov/supervisionreg/srletters/sr2015.htm.
- Safety and Soundness Examinations:** The Federal Reserve Board announced the resumption of examination activities for all banks, after a reduced focus on exam activity as part of the COVID-19 response. The press release, issued on June 15, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200615a.htm.
- Community Reinvestment Act (CRA) Examinations:** The Federal Reserve and the other federal banking agencies issued Frequently Asked Questions on CRA consideration for activities in response to COVID-19. CA letter 20-10, issued on May 27, 2020, is available at www.federalreserve.gov/supervisionreg/caletters/caltr2010.htm.

- **Interagency Policy Statement on Allowances for Credit Losses:** The federal financial regulatory agencies issued a statement in response to changes in the accounting for credit losses under U.S. generally accepted accounting principles, referred to as the current expected credit losses (CECL) methodology. The press release, issued on May 8, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200508a.htm. The related supervisory letter, SR letter 20-12, is available at www.federalreserve.gov/supervisionreg/srletters/SR2012.htm.
- **Interagency Guidance on Credit Risk Review Systems:** The federal financial regulatory agencies issued a statement on sound management of an institution's credit risk; a system of independent, ongoing credit review; and appropriate communication regarding the performance of the institution's loan portfolio to its management and board of directors. The press release, issued on May 8, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200508a.htm. The related supervisory letter, SR letter 20-13, is available at www.federalreserve.gov/supervisionreg/srletters/SR2013.htm.

Actions Related to Consumer Policy

- **Small-Dollar Loans:** The federal financial institution regulatory agencies issued principles for financial institutions regarding small-dollar loans to customers to help cover short-term credit needs. The press release, issued on May 20, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200520a.htm.
- **Flood Insurance:** The Federal Reserve Board responded to questions from state member banks regarding flood insurance compliance requirements during the national emergency due to the COVID-19 outbreak. CA letter 20-7, issued on May 6, 2020, is available at www.federalreserve.gov/supervisionreg/caletters/caltr2007.htm.

Other Board Actions

- **Federal Reserve Programs:** The Federal Reserve established various emergency liquidity and lending facilities as part of its broad effort to support the economy. Information on the facilities is available on the Board's COVID-19 website under "Funding, Credit, Liquidity, and Loan Facilities" at www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm.
- **Federal Reserve Programs Extended:** The Federal Reserve Board announced an extension through December 31, 2020, of its lending facilities that were scheduled to expire on or around September 30, 2020. The press release, issued on July 28, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/monetary20200728a.htm.
- **Payment Services Prices:** The Federal Reserve Board will maintain the current schedule of prices for most payment services that the Federal Reserve Banks provide to depository institutions in 2021. The press release, issued on July 21, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/other20200721a.htm.
- **Main Street Lending Program Modifications:** The Federal Reserve Board modified its Main Street Lending Program to provide greater access to credit for nonprofit organizations such as educational institutions, hospitals, and social service organizations. The press release, issued on July 17, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/monetary20200717a.htm.
- **Rule Change for Paycheck Protection Program:** The Federal Reserve Board extended a rule change to make the Small Business Administration's Paycheck Protection Program (PPP) more effective. The modification allows certain bank directors and shareholders to apply for PPP loans from their affiliated banks. The press release, issued on July 15, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/bcreg20200715a.htm.
- **Fed Listens Report:** The Federal Reserve Board released Fed Listens: Perspectives from the Public, summarizing the 15 Fed Listens events held by the

Board and the Federal Reserve Banks starting in 2019. The press release, issued on June 12, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/monetary20200612a.htm.

- **Main Street Lending Program Expanded:** The Federal Reserve Board expanded its Main Street Lending Program to allow more small and medium-sized businesses to be able to receive support. The press release, issued on June 8, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/monetary20200608a.htm.
- **Municipal Liquidity Facility Expanded:** The Federal Reserve Board announced an expansion of the number and type of entities eligible to directly use its Municipal Liquidity Facility. The press release, issued on June 3, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/monetary20200603a.htm.
- **Municipal Liquidity Facility Term Sheet Updated:** The Federal Reserve published updates to the term sheet for the Municipal Liquidity Facility. The press release, issued on May 11, 2020, is available at www.federalreserve.gov/newsevents/pressreleases/monetary20200511a.htm.

SPEECHES

Governor Lael Brainard gave a speech at the Perspectives on the Pandemic Webinar Series, hosted by the National Association for Business Economics, Washington, D.C., (via webcast) on July 14, 2020. Her speech, titled “Navigating Monetary Policy Through the Fog of COVID,” is available at www.federalreserve.gov/newsevents/speech/brainard20200714a.htm.

Vice Chair for Supervision and Chair of the Financial Stability Board Randal K. Quarles gave a speech at the Exchequer Club, Washington, D.C., (via webcast) on July 7, 2020. His speech, “Global in Life and Orderly in Death: Post-Crisis Reforms and the Too-Big-to-Fail Question,” is available at www.federalreserve.gov/newsevents/speech/quarles20200707a.htm.

Chair Jerome H. Powell gave opening comments at “Building a Resilient Workforce,” a video conference sponsored by the Federal Reserve Bank of Cleveland, Youngstown, OH, (via webcast) on June 19, 2020. His remarks are available at www.federalreserve.gov/newsevents/speech/powell20200619a.htm.

Vice Chair Richard H. Clarida gave a speech (via prerecorded video) at the Foreign Policy Association, New York, on June 16, 2020. His remarks are available at www.federalreserve.gov/newsevents/speech/clarida20200616a.htm.

Governor Lael Brainard gave introductory remarks at “A Fed Listens Event: How Is COVID-19 Affecting Your Community?,” sponsored by the Federal Reserve Board, Washington, D.C., (via webcast) on May 21, 2020. Her remarks are available at www.federalreserve.gov/newsevents/speech/brainard20200521a.htm.

Chair Jerome H. Powell gave opening remarks at “A Fed Listens Event: How Is COVID-19 Affecting Your Community?,” sponsored by the Federal Reserve Board, Washington, D.C., (via webcast) on May 21, 2020. His remarks are available at www.federalreserve.gov/newsevents/speech/powell20200521a.htm.

Vice Chair Richard H. Clarida gave a speech on the U.S. Economic Outlook and Monetary Policy at the New York Association for Business Economics, New York, (via webcast) on May 21, 2020. His remarks are available at www.federalreserve.gov/newsevents/speech/clarida20200521a.htm.

Chair Jerome H. Powell gave a speech on Current Economic Issues at the Peterson Institute for International Economics, Washington, D.C., (via webcast) on May 13, 2020. His speech is available at www.federalreserve.gov/newsevents/speech/powell20200513a.htm.

Governor Lael Brainard gave welcoming remarks at the “Investment Connection – Response to COVID-19: Colorado” webinar series hosted by the Federal Reserve Bank of Kansas City, Kansas City, MO, on May 5, 2020. Her remarks are available at www.federalreserve.gov/newsevents/speech/brainard20200505a.htm.

TESTIMONIES

Federal Reserve Board Chair Jerome H. Powell testified on the coronavirus and CARES Act before the Committee on Financial Services, U.S. House of Representatives, Washington, D.C., on June 30, 2020. The testimony is available at www.federalreserve.gov/newsevents/testimony/powell20200630a.htm.

Federal Reserve Board Chair Jerome H. Powell gave his Semiannual Monetary Policy Report to the Congress before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., on June 16, 2020. The report is available at www.federalreserve.gov/newsevents/testimony/powell20200616a.htm. Chair Powell submitted identical remarks to the House of Representatives Committee on Financial Services in Washington, D.C., on June 17, 2020.

Federal Reserve Board Chair Jerome H. Powell testified on the coronavirus and CARES Act before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C., on May 19, 2020. The testimony is available at www.federalreserve.gov/newsevents/testimony/powell20200519a.htm.

Vice Chair Randal K. Quarles testified before the U.S. House of Representatives, Washington, D.C., on May 15, 2020, in connection with the release of the Federal Reserve Supervision and Regulation Report. The report summarizes banking conditions and the Federal Reserve's supervisory and regulatory activities, in conjunction with semiannual testimony before Congress by the vice chair for supervision. The testimony and report are available at www.federalreserve.gov/publications/supervision-and-regulation-report.htm.

The Federal Reserve System's Ombudsman and Amendments to the Material Supervisory Determination Appeals Process

Continued from page 16

being appealed. The initial review panel may, however, rely on any examination work papers developed by the Reserve Bank or materials submitted by the institution if it determines it is reasonable to do so. The final review panel determines whether the initial review panel's decision was reasonable.

Finally, the Office of the Ombudsman may attend, as an observer, meetings or deliberations relating to the appeal if requested by either the institution or System personnel. Ombudsman staff will also follow up with institutions that have filed an MSD appeal to inquire whether retaliation has occurred. As in the prior policy, the Office of the Ombudsman is the authorized recipient of all retaliation claims made by supervised institutions involving the Federal Reserve.

Conclusion

As explained earlier, the three main functions of the Office of the Ombudsman are (1) to facilitate the fair and timely resolution of complaints related to the System's supervisory and regulatory activities, (2) to investigate any claim that System staff has retaliated against a supervised institution, and (3) to provide feedback on patterns of issues. The Ombudsman's Office staff is dedicated to helping the System and its constituents resolve issues efficiently and effectively. For more information, visit www.federalreserve.gov/aboutthefed/ombudsman.htm, send an email to ombudsman@frb.gov, or call 1-800-337-0429. ■



Connect with Us

What banking topics are most relevant to you? What aspects of the supervisory process or the rules and guidance that apply to community banks would you like to see clarified? What topics would you like to see covered in upcoming issues of *Community Banking Connections*?

With each issue of *Community Banking Connections*, we aim to highlight the supervisory and regulatory matters that affect you and your banking institution the most, providing examples from the field, explanations of supervisory policies and guidance, and more. We encourage you to contact us with any ideas for articles so that we can continue to provide you with topical and valuable information.

Direct any comments and suggestions to editor@communitybankingconnections.org.



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